

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 IO-12 ADP-00 CIAE-00 DODE-00 PM-09 H-02

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-14

USIA-12 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 CEA-02

NEA-10 RSR-01 /190 W

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E. O. 11652: N/ A

TAGS: EGEN, OECD

SUBJECT: VAN LENNEP REPORTS TO OECD COUNCIL ON C-20 MEETING

1. SUMMARY. UNDER OTHER BUSINESS IN COUNCIL MARCH 29, OECD SEC GEN VAN LENNEP MADE ORAL REPORT OF HIS IMPRESSIONS OF C-20 MEETING, MARCH 26-27, WHICH HE ATTENDED ALONG WITH MARRIS OF THE SECRETARIAT. HIGHLIGHTS OF VAN LENNEP'S REMARKS FOLLOW. END SUMMARY.

2. VAN LENNEP STARTED OUT BY SAYING THAT COMPROMISE THAT WAS REACHED BY C-20 WAS SET FORTH CLEARLY IN COMMUNIQUE, COPIES OF WHICH HE CIRCULATED TO COUNCIL. HE SAID THE MAIN THEME OF THE MEETING WAS THE QUESTION OF FIXED AS AGAINST FLOATING EXCHANGE RATES. NOTING THAT
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THE VAST MAJORITY OF SPEAKERS, AND PARTICULARLY ALL OF THE LDCS, ARGUED STRONGLY IN FAVOR OF THE PAR VALUE SYSTEM AS IT WORKED UNDER THE FRETTON WOODS SYSTEM, VAN LENNEP SAID THERE WERE DIFFERENT VIEWS AMONG MAJOR COUNTRIES ABOUT THE IMPLICATIONS OF THE RECENT CRISES FOR THE FUTURE EXCHANGE RATE REGIME. HE DISTINGUISHED THREE GROUPS: (A) SOME WERE ONLY PREPARED TO ENVISAGE TEMPORARY FLOATING UNDER STRICT SURVEILLANCE, A SURVEILLANCE THAT HAD NOT AS YET BEEN ORGANIZED. (B) OTHERS SAW THE NEED TO PROVIDE FOR MORE PROTRACTED FLOATING BUT ALSO FOR MORE WIDESPREAD FLOATING. (C) A THIRD GROUP VAN LENNEP CHARACTERIZED AS AGNOSTIC IN THE SENSE OF FEELING THAT MORE TIME WAS NEEDED PROPERLY TO ASSES IMPLICATIONS OF RECENT DEVELOPMENTS.

3. TURNING TO ADJUSTMENT PROCESS, VAN LENNEP SAID THERE WAS QUALIFIED SUPPORT FOR USE OF OBJECTIVE INDICATORS, AS SUGGESTED BY US, AND GENERAL AGREEMENT ON NEED FOR IMPROVED CONSULTATION PROCEDURES. HE THEN REFERRED TO PAPER SUBMITTED BY EC MONETARY COMMITTEE SUGGESTING THAT RESERVE MOVEMENTS BE ONE AMONG FACTORS TRIGGERING CONSULTATION PROCEDURES, BUT THAT CONSULTATIONS THEMSELVES SHOULD TAKE INTO ACCOUNT OTHER FACTORS SUCH AS BASIC BALANCE OF PAYMENTS AND BOP AIMS, COST AND PRICE TRENDS, AND CYCLICAL FACTORS. IF COUNTRY FAILED TAKE EITHER DOMESTIC OR EXTERNAL ACTION TO DEAL WITH DISEQUILIBRIUM JUDGED TO CREATE SIGNIFICANT DIFFICULTIES, THEN IT SHOULD BE PERMISSIBLE IN LAST RESORT FOR OTHER COUNTRIES TO TAKE COMPENSATING ACTION. MONETARY COMMITTEE PAPER ALSO STRESSED NEED FOR DISTINCTION BETWEEN FUNDAMENTAL DISEQUILIBRIUM AND TEMPORARY DISEQUILIBRIUM.

4. ON CONVERTIBILITY AND RESERVE ASSETS, VAN LENNEP SAID THERE SEEMED TO BE ALLMOST UNANIMOUS AGREEMENT ON BASIC PRINCIPLES FOR REFORMED SYSTEM. HE ADDED HOWEVER THAT DISCUSSIONS STILL HAD NOT REACHED CRUCIAL TECHNICAL ISSUES SUCH AS TERMS ON WHICH DOLLAR BALANCES MIGHT BE CONSOLIDATED AND RATE OF INTEREST AND TYPE OF VALUE GUARANTEE FOR SDRS.

5. VAN LENNEP NOTED THAT LDCS AND EVEN SOME LIMITED OFFICIAL USE

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DCS FAVORED COLLECTIVE MANAGEMENT OF INTERNATIONAL

LIQUIDITY, BUT INSISTED AT SAME TIME ON BEING FREE TO DIVERSIFY THEIR RESERVES. HE SAID THAT THERE WAS A LOT OF TALK ABOUT DISEQUILIBRATING CAPITAL MOVEMENTS BUT AS YET NO CLEAR IDEAS AS TO WHAT COULD BE DONE ABOUT THEM.

6. VAN LENNEP DESCRIBED THE COMMUNIQUE AS STRESSING SOME GENERAL OBJECTIVES AND IDEAS WHICH WERE A STEP FORWARD. ON OTHER HAND, HE SAID A CLOSE READING WOULD SHOW THAT A WAY WAS FOUND TO AVOID PARTICULAR ISSUES AND TO FIND WORDING WHICH SATISFIED VARIOUS PARTNERS IN DEBATE WITHOUT SOLVING ISSUE ITSELF.

7. AFTER REVIEWING PROCEDURAL DECISIONS FOR ORGANIZATION FUTURE C-20 WORK, VAN LENNEP SAID THAT MINISTERS WOULD LIKE TO SEE SUBSTANTIAL PROGRESS MADE IN IME FOR NAIROBI MEETING OF IMF IN LATE SEPTEMBER. HE NOTED THAT WORKING LEVEL PEOPLE SEEM LESS OPTIMISTIC THAT REAL PROGRESS COULD BE MADE BY THAT TIME. VAN LENNEP CONCLUDED HIS REMARKS BY NOTING THAT RECENT EVENTS IN THE INTERNATIONAL MONETARY SYSTEM HAD HAD SOME IMPACT ON THINKING ABOUT REFORM. REAL QUESTION, NOT POSSIBLE TO ANSWER AT THIS STAGE, WAS WHETHER EVOLUTION OF EVENTS WOULD HAVE MAJOR IMPACT ON ELEMENTS OF REFORM OF WHETHER, AS IN CASE OF BRETTON WOODS, NEW SYSTEM WOULD BE DEvised AND CREATED BY MEN TO GOVERN FUTURE MONETARY RELATIONS EMBODIED IN INTERNATIONAL AGREEMENT.

8. COUNCIL'S REACTIONS TO VAN LENNEP'S REPORT WERE BRIEF AND UNEXCEPTIONAL. SPEAKERS FROM SMALLER COUNTRIES CALLED ATTENTION TO NEED FOR MORE INTENSIVE WORK ON DISEQUILIBRATING CAPITAL MOVEMENTS NOT ONLY IN C-20 CONTEXT AND OECD EPC WP-3 BUT ALSO IN NEW OECD COMMITTEE FOR MONETARY FOREIGN EXCHANGE MATTERS. IN BRIEF INTERVENTION, US REP REMINDED COUNCIL THAT THERE WERE AT LEAST FIVE OR SIX BODIES IN OECD AND ELSEWHERE WHICH HAD SHORT TERM CAPITAL MOVEMENTS ON THEIR AGENDA. HE NOTED THAT MULTIPLYING NUMBER OF BODIES DEALING WITH PROBLEM WOULD NOT NECESSARILY SOLVE IT.

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